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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Midland County FIA for the period October 1, 1998 through June 16, 1999. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Midland County FIA had 74 full time equated positions (FTE's) at the time of our review. Midland County FIA provided assistance to an average 14,110 recipients per month during FY 1998, with total assistance payments of \$4,859,676 during that year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Midland County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. We included the following systems:

Client Processing	CIS
Cash Disbursements	Cash Receipts
General Ledger	Accounts Receivable
Safe & Controlled Documents	IRS Information Security
Food Stamp Mail Issuance	Modified Accrual Balance Sheet
Procurement Card	Phone Usage
ENP/SER Payments	Payroll Review
Medical Transportation	

## **EXECUTIVE SUMMARY**

Based on our audit, we concluded that the Midland County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. We found several instances of noncompliance with FIA policies and procedures, and three other items that we considered to be internal control weaknesses.

## **LOCAL OFFICE RESPONSE**

The management of Midland County FIA has reviewed all findings and recommendations included in this report and are in general agreement. They indicated in a memorandum dated July 23, 1999 that they are in general agreement with the report, and that corrective action is being taken for all items in the report.

## **FINDINGS AND RECOMMENDATIONS - COMPLIANCE**

The following are areas where we found that the Midland County FIA was not operating in accordance with FIA policies and procedures that are described in manuals or instructional letters.

### **Mail Opening**

1. Midland County FIA had two people open the mail, however, the same person who opened the mail also completed the Record and Disposition of Checks/Warrants FIA-61. Accounting Manual Item 431 states that one person should open the mail and other should log the items on the FIA-61. Having one person open the mail and the other person log the negotiables helps to ensure that all items received are recorded..

WE RECOMMEND that Midland County FIA have one mail clerk open the mail and the second mail clerk log the returned state warrants.

#### Daily Mail Record of Cash Receipts

2. The Midland County FIA office did not use the Daily Mail Record of Cash Receipts (FIA-4729) for all negotiables received for deposit, as required by Accounting Manual Item 431. Instead the local office used the Record and Disposition of Checks/Warrants (FIA-61) to record all negotiables received in the mail.

WE RECOMMEND that Midland County FIA record all negotiables for deposit on the FIA-4729.

#### CIS/ASSIST Security Agreements

3. Midland County FIA did not have accurate, up-to-date CIS Security Agreements (FIA-3974A) on file for all employees who access the Client Information System (CIS), as required by L-Letter 97-063. For 60 out of 63 agreements we reviewed the status code indicated on the FIA-3974A was not completely filled out. Also, the ASSIST Enrollment Profiles (FIA-3721) were not completed for 10 out of 58 employees who had access to ASSIST, as required by L-Letter 97-156.

WE RECOMMEND that Midland County FIA staff who access CIS and/or ASSIST complete the CIS Security Agreement and/or the ASSIST Enrollment Profile.

#### Payment Authorization Files

4. Midland County FIA did not maintain the files of Supplemental Payment Authorizations (FIA-13) in either alphabetical or case number order, as required by Accounting Manual Item 404. Rather, the local office was maintaining the FIA-13's

in month order. Maintaining the FIA-13's in either alphabetical or case number order provides an audit trail to easily detect how many supplements payments a client has received, and makes the FIA-13's easy to retrieve if needed at a later date.

WE RECOMMEND that Midland County FIA maintain FIA-13's in either alphabetical or case number order.

#### Knowledge of IRS Security Procedures

5. The Midland County FIA mailroom staff were unaware of the proper procedures to follow for confidential information received from the Internal Revenue Service (IRS). Family Independence Agency L-Letter 94-1 states that local offices should ensure that their staff understands all aspects of the confidentiality laws. Such understanding of the laws is necessary to ensure that confidentiality is maintained for all information received from the IRS.

WE RECOMMEND that Midland County FIA familiarize the mailroom staff with all aspects of the confidentiality laws for information received from the IRS.

#### **RECOMMENDATIONS FOR IMPROVED INTERNAL CONTROLS**

The following are areas where we have identified a control weakness at Midland County FIA, and we are recommending a change in procedure to reduce the risk associated with the control weakness.

#### CIS Status Codes

6. The two Information Technology Technicians (ITT's) at Midland County FIA had an FLM status code on the Client Information System (CIS). This status code allows the ITT's to make changes to client cases, which is not consistent with the duties of

their positions. We also found that three Family Independence Managers (FIM) had FLM operator status. This status would allow the FIM's to process case transactions without an independent review of those transactions.

WE RECOMMEND that Midland County FIA change the ITT's to a CIS operator status consistent with their job duties.

WE ALSO RECOMMEND that Midland County FIA either change the FIM's to inquiry only status on CIS, or have an independent person review all transactions performed by the FIM's.

#### Backup Designated Staff Person

7. Midland County FIA did not have a backup Designated Staff Person (DSP) for IRS Security. The local office should have a backup DSP in case information is received on a day when the DSP is out of the office.

WE RECOMMEND that Midland County FIA appoint a backup DSP for IRS information security.

#### MA-010 Reconciliation - Openings and Reopenings

8. Midland County FIA did not reconcile a sample of new case openings and reopenings listed on the MA-010 Report to the Request and Registration Control Record (FIA-3614), as recommended by the Primary Internal Control Criteria for FIA Local/District Office Operations. A sample reconciliation of openings and reopenings provides assurance that cases were opened only by their assigned workers.

WE RECOMMEND that Midland County FIA reconcile a sample of case openings and reopenings on the MA-010 Report to the FIA-3614, or receptionist log.